

Executive Summary

Section 2207, as amended, of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106) requires the Secretary of State to submit a quarterly report to Congress outlining the current conditions for programs and initiatives supported by the specific appropriation(s) dedicated to the Iraq Relief and Reconstruction Fund (IRRF). The Office of Management and Budget (OMB) submitted the first three quarterly reports to Congress, on January 5, 2004, April 5, 2004 and July 2, 2004. The Department of State submitted subsequent reports on October 5, 2004 and January 5, 2005.

This quarterly update for April 5, 2005 will highlight the significant program adjustments made to the implementation of the IRRF that began with the Administration's summer 2004 Strategic Review, which was reviewed and approved by Congress in September 2004. These adjustments continued with the December 2004 \$457 million emergency electricity and post-battle reconstruction initiatives instituted to support Iraq's January 2005 elections, to reinforce Coalition campaign plans, and to address the projected energy demand increases in the summer of 2005. Continuing to respond to changed circumstances, the Department of State notified Congress on March 25 of our intent to allocate \$225 million for job creation activities and \$607 million for a management program (including Operations and Maintenance for the electricity and water sectors) and other urgent initiatives (outlined below). These plans will reallocate funds from long-term projects to address more immediate needs within key sectors such as electricity, water, and oil and will help to protect our investment in Iraqi infrastructure while helping to meet the short-term needs of the Iraqi people.

The Administration continues to shift the focus from longer range infrastructure development projects, as originally envisioned, to a plan providing for and sustaining a stable base of current infrastructure systems needed for short and intermediate range economic development. These moves are necessary not only because of the added operating complexity and cost caused by the continuing combat operations but also because (1) the original estimate of the damage done to the basic infrastructure from decades of neglect and warfare was significantly underestimated; as a result, more time and resources are required to stand-up and maintain systems than originally thought; and (2) the limited capacity of the Iraqi government to provide their own resources for near-term reconstruction.

This report outlines the purpose and status of each of the funded sectors that support our effort to encourage economic growth in Iraq. It highlights actions taken since December 2004 to mitigate the specific conditions that have hindered implementation of the IRRF, including: (1) the increased cost of doing business caused by the continued insurgency, (2) the challenge of securing Iraq's insufficiently protected energy infrastructure as we help to stand up the Iraqi Security Forces, (3) the tight supply of refined fuels, especially diesel, due to Iraq's limited refining capacity, and (4) delays caused by the transition from the Iraqi Interim Government (IIG) to the Iraqi Transitional Government (ITG).

IIG to ITG Transition

On January 30, 2005 Iraq achieved an historic milestone, when over 56% of eligible Iraqis voted in the first credible election in over 50 years. President al-Yawer, Prime Minister Allawi, the Iraqi Interim Government (IIG), and the people of Iraq demonstrated their combined resolve, remarkable unity of purpose, and clear commitment to further Iraq's transition to democracy despite intimidation. On March 16, 2005, Chief Justice Medhat al-Mahmoud swore in the first session of the freely elected 275-member Transitional National Assembly, which was chaired by its oldest member, Dhari al-Fayadh. The opening speech by IIG Prime Minister Iyad Allawi was marked by the continued call for all Iraqis to join in the effort to create a free, sovereign nation.

At present, negotiations for a coalition government continue, and the formation of a Transitional National Government is expected shortly. Despite the remarkable progress made to date, challenging times remain for the people of Iraq and the Coalition Forces supporting them as they move through the Constitution drafting process targeted for completion by August 2005, the Constitution ratification referendum in October 2005, and finally the national elections under a permanent constitution in December 2005.

The Independent Electoral Commission of Iraq (IECI) will continue its public information campaign on the ongoing electoral process, and continue working closely with the United Nations to ensure the constitutional ratification and elections processes succeed. This will help to ensure that all Iraqis will have the opportunity to participate in the selection of their first freely-elected government under a permanent constitution in nearly 50 years.

One of the keys to the success of the Iraqi government is the ability to eventually manage its own security without the presence of Coalition Forces. Over \$5 billion in IRRF has been dedicated to the effort to stand up effective Iraqi Security Forces (ISF). The President requested an additional \$5.7 billion in the FY 05 Supplemental Appropriations request submitted to the Congress on February 14, 2005; funds that are vital to the success of this security transition.

IRRF PROGRAM MANAGEMENT

Starting with the \$457 million reprogramming in December 2004, Embassy Baghdad began shifting the focus of IRRF activity from construction project starts to more integrated management of projects and programs already underway. This allowed the Embassy to:

1. Build on the strengths of the original IRRF spending plan and the detailed project listings already in place;
2. Take full advantage of the growing institutional knowledge of the Iraqi Ministries, as well as the senior advisors, implementing agency officials, and contractors already in place;

3. Respond to increasing evidence of the dilapidated state of Iraqi infrastructure prior to the war;
4. Supplement the limited capacity of the Iraqi ministries to operate their existing infrastructure and to institutionalize modern management processes; and
5. Account for the costs associated with the continued insurgency.

This was done to ensure that the U.S. investments made in Iraq could be sustained and maintained to realize a good measure of their potential.

These changing conditions meant that the cost and time necessary to start and complete activities increased dramatically, requiring a significant and ongoing reevaluation of the overall IRRF program. The Administration has made some significant modifications in September 2004 and January 2005. Now, as a result of further analysis, and in cooperation with the Project and Contracting Office (PCO), U.S. Agency for International Development (USAID), U.S. Army Corps of Engineers' Gulf Region Division (GRD), and Multinational Forces-Iraq (MNF-I), the Embassy is moving to address the immediate needs of the IIG and Iraq's central ministries for capacity building by moving away from a long-range, "design-build-turnover" project orientation to a systems orientation that emphasizes "build-train-turnover." This will help to ensure that the investments that the USG has undertaken and will transfer to the Iraqis are more likely to be sustained. Specifically, we have established:

IRRF Program Goals – The Embassy is working closely with USAID, PCO, MNF-I, and the Iraqi ministries to focus on a systems-wide approach to program development. The Embassy has been managing each sector and the system as a whole with an eye on near-term stabilization and intermediate range sustainability, with particular emphasis on security, electricity, and oil to ensure that the USG:

- Finishes essential projects that have been started and has sufficient funding for critical, systems-completing activities. Non-critical activities will be canceled or deferred to other donors or the Iraqi government. The simple goal is to turn over completed and sustainable systems to the Iraqi government.
- Continues U.S. participation in completed projects until the Iraqis are in a position to assume complete management responsibility. The Embassy will have to reallocate IRRF funds to support training, capacity building, and operations and maintenance activities to avoid the shutdown of critical facilities we help rebuild.
- Moves toward completion of integrated systems that support economic, political, social and community development. For example, water treatment projects must be consistent with water distribution systems, and electricity generation needs to match up with transmission and distribution to provide end-to-end solutions for essential services; and
- Stays within the \$18.4 billion budget by constant monitoring of program performance by executing agencies.

Leveraging Finite Resources – Another set of initiatives that work to optimize the finite funds available include:

- Shifting work to Iraqi sub-contractors that are somewhat less susceptible to insurgency attacks and are not burdened by the same heavy overhead expenses of foreign firms;
- Consolidating efforts between Design-Build contractors (DBs) and the Iraqi ministries to share project cost burdens and make more efficient use of IRRF resources. For example, in the electricity sector, both the Ministry of Electricity and the DBs have projects to refurbish transmission substations. Rather than having each Ministry contract for its own materials, the implementing agencies have found that they could optimize delivery time and project cost if the DB contractors buy all the materials and the Ministries handle all the labor & the majority of security;
- Constantly reviewing costs and improving estimates to account for changing circumstances while keeping an eye on completing whole systems; and
- Coordinating with other organizations that have finite funds available for reconstruction to avoid duplication of effort (e.g., United Kingdom's Department for International Development (DFID) in southern Iraq).

Operating Flexibility – The Iraq Reconstruction Management Office (IRMO) has moved to cancel non-critical, longer-range projects. This has provided financial flexibility that allows IRMO to address serious gaps in the existing program plan, replicate successful activities, and address new needs/opportunities/initiatives created by changing circumstances. As of March, 14, 2005, \$1.3 billion (not including the \$3.46 billion summer 2004 reallocation) of needed changes have been implemented or will be implemented shortly to (1) cover unanticipated post-battle reconstruction costs, (2) cover indirect cost increases of contractors operating on cost plus contracts that allow them to continue billing even during delays, (3) account for increased security costs, (4) replicate successful anti-insurgency and community building initiatives in impoverished neighborhoods, (5) upgrade critical infrastructure, (6) launch an additional jobs creation initiative, and (7) cover operations and maintenance (O&M) shortfalls in Iraqi Ministries.

Monitoring systems – To ensure regulatory compliance and that the USG continues to have flexibility to respond to changes in the environment, IRMO has established a series of checks and balances that include:

- Monthly sector reviews with PCO, USAID, GRD, MNSTC-I, State/INL and Senior Consultants at the IRMO Director level (two times per month for essential services-- Oil, Water, Electricity, Communications, and Transportation);
- Weekly review of funds moved and projects started & completed;
- Sub-sector financial reviews every 6 weeks to do gap analysis and cost-to-complete reviews;
- Requiring program changes/re-scoping/cancellations be reviewed/approved at the IRMO level;
- Daily interaction with the Iraqi Ministries through the IRMO Senior Consultants;
- Weekly meeting with the Deputy Prime Minister headed by the Director of IRMO to address strategic issues regarding reconstruction;
- Enforcing the triennial review requirement (a Department of Defense requirement);

- Leveraging the 2207 review process to reconcile the projected and actual accomplishments; and
- Bi-weekly review with MNF-I at the Strategic Operations level to ensure that our military and reconstruction objectives are mutually reinforcing.

Alternative Funding Sources – Recognizing that the \$20.9 billion of total IRRF funding (both IRRF I and II) will not fully restore Iraq’s infrastructure and that the ITG is faced with as much as a \$5 billion budget shortfall for CY 2005, the Embassy has begun working with the United Nations and the World Bank on donor coordination to assist the Iraqi Government in attracting further near-term investment from other official donors. Given that the private sector is an indispensable engine for long-term sustainable economic growth and employment, and the USG is working with Iraqis to develop an appropriate enabling environment to attract domestic and international private investment. As political, economic, security and other conditions vary according to locations, this holistic effort may take considerable time to produce material benefits countrywide.

IRRF Spending

As of March 29, \$12.038 billion (over 65 percent of the \$18.4 provided in the IRRF) has been obligated. Of this amount, \$4.2 billion has been disbursed. Since submission of the January 5, 2005 report, \$1.563 billion has been obligated and \$1.988 billion disbursed.

IRRF STRATEGIC SPENDING PLAN REVIEW

In March 2005, the Embassy reallocated \$832 million within the IRRF to increase funding for proven job creation programs, ensure adequate operations and maintenance of IRRF funded projects, and ensure that IRRF activities continue the transition toward a systems-oriented program to better support MNF-I military campaign plan initiatives and more accurately reflect Iraqi needs and priorities. These efforts will also address Iraqi ministry management and other shortcomings, particularly in the oil, electricity and water sectors. This will help to ensure that the Iraqis and the USG realize a significant continued return on our combined investments and to prevent funding gaps in key USG initiatives relating to regime crimes and the justice system. The \$832 million is divided into a \$225 million job creation initiative and \$607 million for more effective management of IRRF programs to protect the long-range viability of our investments and other urgent priorities. The \$225 million job creation initiative is designed to create employment opportunities for disenfranchised males, predominately through private sector development activities, and it was primarily funded through the cancellation of five non-critical long-range water projects. The majority of the \$607 million is for operations and maintenance in the power and water sectors, urgent work in the electricity and oil sectors, and cost growth incurred by design build contractors. Canceling two non-critical out-year energy projects largely funded this initiative, and the funds reprogramming within the electricity sector was executed to optimize near and

intermediate investments (e.g., rehabilitation of existing power plants) that set the stage for longer range development in the electricity sector.

Job Creation

As part of the Administration's plan to extend two proven job creation programs (essential services in Baghdad and USAID's community development program) and to initiate two new ones (housing rehabilitation grants and micro/small business loans), \$225 million was re-allocated to: acceleration of the build-out of vital essential services in other highly impoverished, potential insurgency-prone neighborhoods of Baghdad (\$100 million), Community Action Program (CAP) (\$100 million), housing rehabilitation grants (\$20 million), and micro/small business loans (\$5 million). These programs complement the reform and development efforts underway that are necessary for long-term, sustainable economic growth.

- Essential Services – By replicating the First Cavalry Division's essential services Sadr City model (electrical distribution and small-scale potable water/ sewerage projects) in impoverished areas similar to Sadr City, the Third Infantry Division (3rd ID) will strike further at the heart of the insurgency's power base in Baghdad: disenfranchised military-age males. Iraqis will be able to reclaim their communities with measurable, visible activities managed by their own people. The positive impact on security in Sadr City has been quantifiable – we continue to employ thousands of Iraqis– and the community development has been sustainable. Under this program, the Embassy, in coordination with the 3rd ID, allocated \$63 million for new electrical distribution projects, \$20 million for new potable water projects, and \$17 million for new sewerage projects.
- Community Action Program (CAP) – USAID's CAP program emphasizes creating jobs based on community priorities. CAP implementers find that the local community takes an active part in ensuring and protecting success, as they must invest 20% of the projects' cost. This investment serves to reinforce the partnership and ownership that is missing from purely charitable activities. In addition to developing a modern social infrastructure, this program has rehabilitated and constructed schools, health clinics, and water & sewerage facilities throughout Iraq. CAP has employed thousands of Iraqis over the last two years. An additional \$100 million for this program will continue these benefits for hundreds more Iraqi communities.
- Housing Rehabilitation Grants – The 3rd ID, with the guidance and approval of the local Community Action Groups (leaders councils at the neighborhood level) and with technical assistance from USAID, will provide \$20 million of housing rehabilitation grants to 10,000-20,000 households through local community action groups. Housing rehabilitation is a proven job creator. This method of community development stimulates economic activity and job creation by injecting cash quickly into the local economy, and strengthens neighborhood councils that will assist in the implementation of the programs.
- Micro/Small Business Loans – Utilizing an existing mechanism, USAID will use \$5 million to increase micro/small business lending in order to accelerate

redevelopment and capacity building in the vital private banking sector. This will allow local businesses access to much-needed capital necessary for sustained economic growth and job creation. Small businesses are the source of most new jobs in all market economies. This \$5 million will supplement already-existing funding in USAID's credit/grant facility.

Management Program

Embassy Baghdad has recently reallocated \$607 million from longer-range projects to activities that will help ensure the sustainability of the more urgent IRRF investments we have already made.

- Electricity (\$444 million): \$108 million will be provided for a comprehensive O&M program at 5-7 strategic power plants to ensure that these facilities have the necessary spare parts and trained personnel to operate with minimal interruption; \$35 million for emergency generation work at two key power plants -- Doura (\$30 million) and Bayji (\$5 million) -- and at key oil infrastructure sites (\$4 million); \$30 million to complete the build-out of the automated monitoring and control system; \$27 million to complete the rehabilitation of the Baghdad South generation plant; \$50 million for the construction of a small, scalable 50MW generation plant at Koya; \$160 million to cover a contractor's cost growth caused by increased security costs, project scope increases significantly above original estimates, and indirect cost increases associated with the contractor mobilizing for more work than was eventually assigned; and \$30 million to meet USG obligations associated with closeout costs at IRRF-funded, Coalition Provisional Authority (CPA)-sponsored Restore Iraqi Electricity (RIE) projects.
- Oil (\$51 million): \$40 million for the construction of additional Gas-Oil Separation Plants (GOSPs), the purchase of long-lead time equipment, and the undertaking of a gas balance study; and \$11 million to meet USG obligations associated with closeout costs at IRRF-funded, CPA-sponsored Restore Iraqi Oil (RIO) projects
- \$25 million for a comprehensive operations and maintenance (O&M) program at recently-rehabilitated water treatment plants turned over to the Iraqis;
- \$9 million to complete the construction of the Advanced First Responders Network (AFRN) in all 16 cities;
- \$15 million to expand the prison at Nasiriyah (\$9 million) and to complete the construction of the prison in Dahuk (\$6 million in partnership with the Iraqi government which will contribute \$4 million);
- \$10 million for additional secure courthouses; and
- Regime Crimes Liaison Office (RCLO): \$53 million to be used in FY 2006 to complete the exhumations of four additional mass graves that may be linked to a certain set of defendants.

SECTOR HIGHLIGHTS

Security and Law Enforcement Sector

In the last quarter, the ISF provided fixed site security during independent and democratic elections on January 30, 2005 in which 8 million Iraqis voted. The ISF also made progress in countering the insurgency, including a series of operations in Samarra – completely led and carried out by Iraqi units – which netted over 80 suspected terrorists and insurgents, plus the unearthing of a substantial weapon cache. This kind of independent operation demonstrates that our efforts to train and equip the ISF are beginning to produce results.

Ministry of Defence Forces Summary – All 27 battalions of the originally planned Regular Army and Iraqi Intervention Force have been stood up. Also, a reinforced battalion of the 1st Iraq Mechanized Brigade became operational in January and a second mechanized battalion will be formed by May 2005. The 2nd Mechanized Brigade will be formed between August and November 2005. These elements will form the backbone as we move to build a complete mechanized division with T-55 and T-72 tanks, BMP-1s (armored infantry combat vehicle) and MTLBs (multi-purpose tracked vehicle). The first Iraqi Transportation Regiment (battalion) became operational in January and has already assumed some logistical support missions from Coalition forces. On March 15, the Iraqi Navy assumed full control of its own base support operations at Umm Qasr, the first such transition of a base in Iraq. The Iraqi Air Force has four operational squadrons throughout Iraq. The addition of three Iraqi-flagged C-130 aircraft on January 14 provided a significant capability to support movement of key officials and equipment throughout Iraq.

While these successes show great promise, significant challenges remain. The Army continues to implement a direct recruiting program and individual replacement system to address manning shortfalls, which should be eliminated by April 2005. Many Iraqi tactical and operational level units are not able to plan and conduct operations without the assistance of Coalition forces. For example, Intelligence capabilities are still immature, although MNF-I is developing a plan to address these issues.

Ministry of Interior Forces Summary – During the previous quarter, 9,245 new police students were trained in an eight-week Academy program, bringing the total trained to date to approximately 25,000. These were the first students trained in the new curriculum that added more survival skills and counterinsurgency-related training that resulted from the analysis of how ineffective previously trained police forces were at countering insurgency activity. Additionally, efforts are underway to improve leadership training and field training done by Iraqis, in order to improve the overall effectiveness of police who confront an organized campaign of intimidation and terrorism.

In addition, the Multinational Security Transition Command – Iraq (MNSTC-I) helped the Ministry of Interior (MoI) equip and deploy three Special Police Commando Brigades to supplement the newly trained nine Public Order Battalions. These newly formed commando units are designed to provide a high-end capacity to the Iraqi police to conduct offensive operations against the insurgency. Moreover, Iraq's first Special Border Force Battalion is operating on the Syrian border in Al-Anbar Province; a second battalion has begun its deployments to the border, and a third began training in March.

Justice, Public Safety Infrastructure and Civil Society Sector

The Embassy has identified programs in partnership with the Iraqi Ministries of Interior and Justice to further joint efforts to establish the rule of law in Iraq. There are multiple federal agencies working in close partnership with the Iraqi government to provide the necessary combination of expertise, knowledge, and understanding through specialized training opportunities to build the appropriate legal framework to advance Iraq's democratic efforts.

USAID provided assistance to the Independent Electoral Commission of Iraq (IECI) and to Iraqi non-governmental organizations to organize and conduct the January 30 elections. Post-election assistance has continued with the emphasis on building the capacity of the ITG to both govern during the transition and write the permanent constitution.

Electricity Sector

Our efforts in the electricity sector during this quarter were intended to address the decrepit state of the electricity system as well as the ongoing insurgency. Consistent with this, we have moved to systems completion and stabilization, including moving funds from non-critical longer-range projects into shorter-term needs such as total plant rehabilitation at Doura and Bayji and funding additional O&M activities needed to protect existing USG investments. Focusing on a 4,000 MW core of 8 large generation plants, the corresponding 400/132 kV transmission corridors, and key urban distribution needs, the following gains were achieved: (1) addition of 369 MW to the grid, (2) reinforcement of the transmission system in Baghdad by adding a new 400 kV sub-station (Al-Ameen), and (3) accelerated distribution recovery in Baghdad, Samarra, Najaf and Fallujah. Additionally, the countrywide assessment for the System Control and Data Acquisition (SCADA) was completed.

Oil Infrastructure and Capacity Sector

While crude oil production and exports remain essentially unchanged from the levels of late 2004 (2.1 million barrels per day (bpd) produced/1.4 million bpd exported), they remain significantly below the production/export level of 2.5 million bpd/1.6 million bpd achieved in September 2004. Despite increases in crude oil prices, this drop in production and exports is making it more difficult for Iraq to close the almost \$5 billion gap between planned expenditures and actual revenues in Iraqi FY 2005. Crude oil production and exports have been limited by attacks on the northern crude pipelines (300,000 bpd) and pressure maintenance in the southern oil fields (200,000 bpd). Despite this, we continue to apply the IRRF resources to address the situation, particularly the pressure maintenance issues in the south, through the construction of additional Gas-Oil Separation Plans (GOSPs) and the rehabilitation of the Rumaila Fields water tables to improve the pressurization and increase oil production.

Water Resources and Sanitation Sector

Consistent with our evolving approach to reconstruction, our work in the water sector has also moved to systems completion and stabilization orientation. This includes allocating \$25 million for O&M activities needed to protect USAID investments in water/wastewater treatment plants funded by IRRF I. In the last quarter, much of the activity has been limited to small, scalable projects as the larger water/wastewater treatment plants, dams, and irrigation systems move through the end of the design phase.

Transportation and Telecommunications Sector

Progress continued at the airports to help Iraq achieve International Civil Aviation Organization (ICAO) certification, at the port to rehabilitate facilities and establish security, and on the railroads to rehabilitate rail stations. The Wireless Broadband Network (WBBN) was connected at 5 Ministry sites, with the goal of fully commissioning the system by the end of April at 35 ministries.

Roads, Bridges and Construction Sector

PCO and USAID completed the construction/rehabilitation of 190 schools within the reporting period, bringing the total number of schools constructed/rehabilitated to 322 (of 900 planned). PCO concluded a grant agreement with the Ministry of Housing and Construction that will allow for the execution through the Ministry of three key roads and bridges projects.

Health Care Sector

PCO started construction on 54 Primary Health Care Centers (PHCs), bringing the total number of PHCs under construction to 110 (of 150 planned) and started construction on 19 hospitals (of 20 planned). Construction has also started on the Academy of Health Sciences. USAID's construction of the new Basrah Children's Hospital is on schedule, and its partners have also delivered 300 emergency health kits to strengthen emergency room and essential health care capacity in MoH facilities.

Private Sector Development Sector

USAID continued its efforts to (1) promote economic reforms (particularly through training and technical assistance to the IIG and the private banks); (2) promote agricultural sector reforms, including the distribution of improved wheat seed and assistance to veterinary clinics; and (3) promote market-based reforms (particularly to encourage privatization of state owned enterprises and accession to the World Trade Organization).

Education, Refugees, Human Rights, Democracy and Governance Sector

In late January 2005, IRMO's Iraqi Property Claims Commission (IPCC) Advisory Group negotiated a joint International Organization for Migration (IOM) /United Nations High Commissioner for Refugees (UNHCR) package of comprehensive support and assistance addressing a broad range of IPCC claims program matters. The support package has already begun to show results in terms of improved IPCC claims program activities, with more than 48,500 claims filed, and almost 2,500 claims decided, as of March 16th.

The Bureau of Population, Refugees, and Migration (PRM) continued to build capacity of the Ministry of Displacement and Migration (MoDM) and the IPCC. PRM and IRMO's consultant team supported MoDM's emergency response teams to Fallujah, and PRM-funded IOM and UNHCR training on organization, Internally Displaced Persons (IDPs), and returnees has enabled MoDM to document displacement and function effectively.

USAID's Office of Foreign Disaster Assistance (OFDA) provided winter supplies and support to IDPs, and USAID's Office of Transition Initiatives (OTI) continues to provide small grants to Iraqi communities to respond to rapidly changing conditions. In addition, the USG supported civic and voter education efforts in the days and weeks surrounding the January 30th election. USAID also distributed 525,000 secondary school kits for 10th-12th grade students and refurbished sanitary facilities in 20 schools. PCO delivered basic science laboratory kits to the Ministry of Higher Education and Scientific Research for distribution to 22 Universities.

Commander's Emergency Response Program (CERP)

CERP continues to be a highly effective and flexible program enabling quick response to urgent, labor-intensive, humanitarian relief and reconstruction requirements, which has built trust and support for the Coalition at the grassroots level. This program has allowed the local population in various communities to see immediate improvements in quality of life. The President has requested an additional \$320 million for CERP projects in Iraq in the FY 2005 supplemental appropriations request, funds that are vital for this program to continue uninterrupted.

During the previous quarter, MNF-I units began work on 1,092 CERP-funded projects throughout Iraq and completed 657 projects. Some of the projects include repairing and refurbishing water and sewer lines, cleaning up highways by removing waste and debris, transporting water to remote villages, upgrading schools and clinics, purchasing school supplies, and refurbishing playgrounds, youth centers, libraries, other recreational facilities, and other public facilities. MNF-I units anticipate completing 436 CERP-funded projects by June 30 and starting an additional 205 projects.

The Development Fund for Iraq (DFI)

The Iraqi Minister of Finance granted an initial delegation of authority for the Chief of Mission to continue administering and paying for contracts written by the CPA to be paid from the Development Fund for Iraq (DFI) for the period June 28, 2004 to December 31,

2004. At year-end, the Minister granted a further extension until February 28, 2005. This extension was conditional upon the Mission providing a full accounting of the outstanding liabilities and the funds on hand in the DFI Transitional sub-account that is dedicated to pay for the DFI contracts. The accounting of liabilities and funds on hand was delivered to the Minister by Under Secretary of the Treasury, John B. Taylor, during his visit to Iraq in February along with a request for a further extension of the delegation of authority. Minister Mahdi granted the extension to December 31, 2005, by which time the great bulk of the liabilities will be settled and paid.

When the accounting was delivered in February, the potential liabilities were calculated at \$1.387 billion and funds on hand were about \$1.1 billion, leaving a potential unfunded liability of \$287 million that could impact the 2005 Iraqi budget. Upon further examination during March the potential liabilities were found to be \$245 million lower, leaving an unfunded liability of \$42 million.

Accelerated Iraqi Reconstruction Program (AIRP)

The AIRP, implemented by PCO using Development Fund for Iraq (DFI) funds, continues to create jobs and build infrastructure that improves quality of life. The projects provide clean water, waste treatment facilities, roads, bridges, clinics, schools and infrastructure in eight key governorates. More than 360 projects valued at over \$313 million are under contract and are employing approximately 5,000 Iraqis. Of these, 200 projects valued at over \$52 million have been completed to date, with total work in place valued at over \$145 million. The majority of these projects will be completed by July 2005. Those few projects that extend beyond July will be transferred to Iraqi control in order to build Iraqi management capacity.

International Donor Assistance

Over the past quarter, the international community has continued to build on the success of the October 2003 Madrid Donors' Conference. At Madrid, the international community pledged over \$32 billion in assistance for the reconstruction of Iraq, including \$5.5 billion in lending from the World Bank and International Monetary Fund (IMF) and another \$8 billion from other donor governments. All of these funds are to be disbursed between the years 2004 and 2007. As of March 2005, over \$2.7 billion of the pledges of non-U.S. assistance has been disbursed, including \$436 million from the IMF. About \$1 billion of the funds disbursed thus far have been transferred into the International Reconstruction Fund Facility for Iraq (IRFFI), a vehicle for joint management of World Bank and United Nations reconstruction trust funds. Donor government disbursements are defined here as meaning funds that have left government treasuries. Because much of it is being channeled for implementation through trust funds, contractors, NGOs, international organizations, and Iraqi institutions, the impact on the ground in Iraq is just starting to be felt. We have been working with the Iraqi government and other major donors and institutions to encourage that all donors disburse their pledged assistance as quickly as possible.